

SANITARY DISTRICT OF DECATUR
Decatur, Illinois

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
April 30, 2012 and 2011



CliftonLarsonAllen

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Independent Auditor's Report

Board of Trustees
Sanitary District of Decatur
Decatur, Illinois

We have audited the accompanying basic financial statements of Sanitary District of Decatur as of and for the years ended April 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanitary District of Decatur as of April 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages II through VII be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.



Champaign, Illinois
October 1, 2012

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

The Sanitary District of Decatur (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal years ended April 30, 2012 and 2011. We encourage readers to consider the information in conjunction with the District's financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

BACKGROUND INFORMATION

The Sanitary District of Decatur was organized under the Sanitary District Act of 1917. Currently, the District serves a population of roughly 88,500 in an area of approximately 30 square miles. For the years ended April 30, 2012 and 2011, respectively, approximately 31,540 and 31,044 customers were billed a user charge based on their water consumption, solids, ammonia, and oxygen demanding waste; with the exception of a few users which are billed on metered discharge rather than water purchased. Customers are divided into three categories: residential, commercial/domestic, and industrial. While residential customers are the largest group in number, the industrial customers account for about two-thirds of the District's user charges. A staff of 58 employees in 2012 and 59 employees in 2011 treated a maximum flow of 91.7 million gallons per day in 2012 and 111.0 million gallons per day in 2011; an average of 28.2 million gallons of wastewater a day in 2012 and 38.02 million gallons of wastewater a day in 2011. The plant is designed for 41 million gallons per day during dry weather flow and maximum capacity of 125 million gallons per day during wet weather events. The District continues to meet U.S. Environmental Protection Agency and Illinois Environmental Protection Agency permit requirements and regulations.

FINANCIAL HIGHLIGHTS

- During the fiscal year 2011, the District had several projects in various stages of readiness. The District continued an annual asset renewal program that included roads/parking lots repairs and roof renewal. In addition, the District made several equipment replacements and infrastructure improvements. These projects are discussed further in the Capital Assets section.
- During the fiscal year 2012, the District's net assets increased \$1,660,471, representing an increase of 1.78%. During fiscal year 2011, the District's net assets increased \$465,047, representing an increase of 0.50%.
- During the fiscal year 2012, the District started Phase II of the South Sludge Storage Lagoons Remediation Project. This remediation project consists of removing the sludge from the two lagoons on land currently leased from the Macon County Conservation District and restoring the land to match the surrounding area. The overall project is scheduled to be completed by 2015 and is being funded by an internal loan from the replacement fund structured like IEPA Revolving Loan Program loans.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

- During fiscal year 2012, the District completed the planned expansion of the sanitary sewer collection system to the Village of Oreana and Village of Argenta. During this time period, the Village of Oreana system was commissioned and the District began to collect for billable flow. Construction on the Village of Argenta system was completed but the system was not commissioned until after the fiscal year end. These projects will increase the District's user charge revenue. Both collection systems are being financed thru the IEPA Revolving Loan Program using American Recovery and Reinvestment Act funding. Although the IEPA Loan is amortized over 20 years the District will recover approximately 77% from Oreana and 72% from Argenta through Intergovernmental Cooperation Agreements over a period of 30 years. The District will own everything from the pump stations to the District and the Villages will own everything from the user hookups to the pump stations.
- The District completed negotiations with Tate & Lyle Bulk Ingredients Americas Inc. regarding the treatment of a new high strength waste product that is the result of the production of the fragrant oil chemical farnesene. The waste will be trucked to the treatment plant rather than using the sewer collection system and pumped directly into the anaerobic digesters for treatment. In 2012 the District will be constructing a waste receiving station that will allow more efficient unloading of delivery trucks.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The financial statements also include notes that explain in detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods similar to those used by the private sector companies. These statements offer short and long-term information about the District's overall financial status.

The Balance Sheet presents information on all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

REQUIRED FINANCIAL STATEMENTS (CONTINUED)

The revenue and expenses for each year are accounted for in the Statement of Revenues, Expenses, and Change in Net Assets. This statement measures the success of the District's operations over each year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

A summary, in thousands, of the District's Balance Sheet is presented below.

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other							
Assets	\$ 35,737	\$ 38,886	\$ (3,149)		\$ 42,220	\$ (3,334)	
Capital Assets	90,775	80,002	10,773		72,694	7,308	
Total Assets	126,512	118,888	7,624	6.41	114,914	3,974	3.46%
Long-term Debt							
Outstanding	26,195	20,213	5,982		18,097	2,116	
Other Liabilities	5,461	5,479	(18)		4,086	1,393	
Total Liabilities	31,656	25,692	5,964	23.21%	22,183	3,509	15.82%
Invested in Capital							
Assets,							
Net of Related Debt	65,192	60,571	4,621		55,548	5,023	
Unrestricted	29,664	32,625	(2,961)		37,183	(4,558)	
Total Net Assets	\$ 94,856	\$ 93,196	\$ 1,660	1.78%	\$ 92,731	\$ 465	.50%

For FY 2012 and FY 2011, the increase in net assets was due to the change in net assets or net profit for the fiscal years. Current and other assets for FY 2012 and FY 2011 decreased as the District increased Capital Assets through the construction of new assets and rehabilitation of existing assets. Other liabilities increased in FY 2011 due to increases in accounts payable including retainage from construction contracts.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT (CONTINUED)

While the Balance Sheet shows the change in financial position of net assets, the Statements of Revenue, Expenses, and Change in Net Assets provides answers as to the nature and source of these changes. The table below reflects the past two years changes, in thousands.

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 11,231	\$ 10,552	\$ 679		\$ 9,715	\$ 837	
Nonoperating Revenues	4,950	4,314	636		4,946	(632)	
Total Revenues	16,181	14,866	1,315	8.84%	14,661	205	13.98%
Operating Expense	10,899	11,097	(199)		10,572	525	
Depreciation Expense	3,250	2,892	358		2,874	18	
Nonoperating Expense	371	412	(41)		446	(34)	
Total Expenses	14,520	14,401	119	.83%	13,892	509	3.66%
Changes in Net Assets	1,661	465	1,196		769	(304)	
Beginning Net Assets	93,196	92,731	465		91,962	769	
Total Net Assets	\$ 94,857	\$ 93,196	\$ 1,661	1.78%	\$ 92,731	\$ 465	.50%

The major factors for FY 2012 which drove these results:

- The largest part of the increase in operating revenues was due to the agreement with Tate & Lyle Bulk Ingredients Americas Inc. resulting in an in a new revenue source for waste trucked to the treatment plant and processed by the anaerobic digesters.
- Nonoperating revenue increased because of reimbursements from the state from the IEPA revolving loan program.
- Operating expenses show a decrease primarily because there were no expenses related to the potential reclaimed water pipeline.

The major factors for FY 2011 which drove these results:

- The increase in operating revenues was due to an increase in industrial user charges and penalties revenue.
- Operating expenses increase was due to an increase in the general and administrative expenses. The primary expenses that increased were related to professional and consulting fees related to obtaining easements for the potential reclaimed water pipeline.
- Non-operating expense decrease was primarily due to a decrease in interest expense.

SANITARY DISTRICT OF DECATUR MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At the end of fiscal years 2012 and 2011, the District had \$90,775,321 and \$80,001,956 invested in capital assets (net of depreciation), respectively. As of April 30, 2012, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$4,160,240, which were at varying stages of completion. The District is obligated to pay the cost under these contracts as the work is completed.

For FY 2012 the increase in capital assets included Oreana sewer system and pump stations, Stevens Creek interceptor lining, primary clarifier #3 mechanism replacement and south sludge lagoon dewatering facility.

For FY 2011 the increase in capital assets included the completion of the Wyckles Forcemain Project and the Wyckles Phase II Project.

DEBT ADMINISTRATION

As of April 30, 2012, the District has outstanding loans from the Illinois Revolving Loan in the amount of \$25,583,160 plus interest payable of \$1,684,835 of which the principal and interest due in the upcoming fiscal year are \$1,749,367 and \$328,866, respectively. As of April 30, 2011, the District has outstanding loans from the Illinois Revolving Loan Fund in the amount of \$19,430,638 plus interest payable of \$3,052,586. It is anticipated that the Revolving Loan Fund will be used to fund future projects.

BUDGETARY HIGHLIGHTS

The District adopts an annual combined budget following presentation to the Board of Trustees and public notification and a public hearing. These budgets outline the estimated expenditures and the means of financing them. The District's budget may be revised throughout the year, after Board approval.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District considers many factors when setting the fiscal year budget, user fees and charges. User charge rates generally reflect inflationary pressure on salaries and related personnel expenses, supplies and utilities. Additional consideration is given to the amount of capital improvements and replacements needed for the current fiscal year.

Domestic, commercial and minor industrial classes generate approximately 30% of the billable flow. The District expects to see a small decrease in this user class given the current economical conditions. The major industrial user class, although small in number, generates more than 70% of the billable flow. The majority of the Sanitary District's customers have been under water restrictions since October of 2011 due to a drought. The reduced water supply results in lower billable flow and increased concentrations. The large industrial customers have been making changes to their process including transferring production to facilities outside of the Decatur area to comply with the restrictions. Continued water restrictions or permanent process relocation will have a significant impact to the District.

**SANITARY DISTRICT OF DECATUR
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

It appears that the Taylorville Energy Center (TEC) project will not be proceeding. Since TEC was the sole proposed reclaimed water customer the District now does not expect reclaimed water to be a new revenue source until a new customer is established.

Domestic user charge rates are listed below:

	<u>FY 11/12</u>	<u>FY 10/11</u>	<u>FY 09/10</u>	<u>FY 08/09</u>
Cost per 100 cubic feet	\$ 0.94	\$ 0.85	\$ 0.82	\$ 0.81
Average annual costs per User's household	\$ 90.24	\$ 81.60	\$ 78.72	\$ 77.76

During the 2011 budget process the District developed a long range capital financing plan that calls for user fees to be increased by 9 cents per 100 cubic feet per year for through 2016. The additional revenue will allow the District to establish a dedicated funding source for the renewal of existing capital assets.

DISTRICT CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Kent D. Newton, Director of Administration, Sanitary District of Decatur, 501 Dipper Lane, Decatur, Illinois 62522 or by telephone at (217) 442-6931, ext. 213, or by email at kentn@sdd.dst.il.us.

**SANITARY DISTRICT OF DECATUR
BALANCE SHEETS
April 30, 2012 and 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,315,842	\$ 15,229,273
Investments	13,468,783	18,203,067
Receivables, net	5,269,670	4,663,938
Prepaid expenses	69,964	7,227
Due from City of Decatur/Village of Forsyth, current portion	<u>204,398</u>	<u>207,236</u>
 Total current assets	 <u>35,328,657</u>	 <u>38,310,741</u>
 CAPITAL ASSETS , net of accumulated depreciation	 <u>90,775,321</u>	 <u>80,001,956</u>
 LONG-TERM RECEIVABLE		
Due from City of Decatur/Village of Forsyth, less current portion above	<u>407,746</u>	<u>575,143</u>
 TOTAL ASSETS	 <u>\$ 126,511,724</u>	 <u>\$ 118,887,840</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable, including retainage of \$626,542 and \$666,045, respectively	\$ 1,899,306	\$ 2,061,468
Accrued expenses	524,636	525,387
Deferred income - real estate taxes	3,035,979	2,891,940
Notes payable, current maturities	1,749,367	1,401,134
Notes payable - City of Decatur/Village of Forsyth, current maturities	<u>204,398</u>	<u>207,236</u>
 Total current liabilities	 <u>7,413,686</u>	 <u>7,087,165</u>
 LONG-TERM LIABILITIES		
Notes payable, less current maturities above	23,833,793	18,029,504
Notes and interest payable - City of Decatur/Village of Forsyth, less current maturities above	<u>407,746</u>	<u>575,143</u>
 Total long-term liabilities	 <u>24,241,539</u>	 <u>18,604,647</u>
 Total liabilities	 <u>31,655,225</u>	 <u>25,691,812</u>
 NET ASSETS		
Invested capital assets, net of related debt	65,192,161	60,571,318
Unrestricted	<u>29,664,338</u>	<u>32,624,710</u>
 Total net assets	 <u>94,856,499</u>	 <u>93,196,028</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 126,511,724</u>	 <u>\$ 118,887,840</u>

The accompanying notes are an integral part of the financial statements.

SANITARY DISTRICT OF DECATUR
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
Years Ended April 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Industrial user charges and penalties	\$ 7,417,612	\$ 7,403,328
User charges	3,556,740	2,982,061
Annexations	43,750	446
Pump stations	97,062	93,455
Miscellaneous	<u>115,350</u>	<u>72,628</u>
 Total operating revenues	 <u>11,230,514</u>	 <u>10,551,918</u>
OPERATING EXPENSES		
Personnel services	4,994,888	5,093,738
Operations and maintenance	3,842,454	3,481,516
Building and grounds	166,363	473,824
Contractual/outside services	522,417	1,103,564
Depreciation expense	3,249,931	2,891,747
General and administrative expenses	<u>1,372,394</u>	<u>944,058</u>
 Total operating expenses	 <u>14,148,447</u>	 <u>13,988,447</u>
 Operating loss	 <u>(2,917,933)</u>	 <u>(3,436,529)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,901,183	2,898,030
Replacement taxes	354,113	447,485
Federal funding	-	447,860
State funding	1,535,801	445,973
Tenaska income	221	1,624,271
Tenaska expense	(221)	(1,624,271)
Investment income	158,690	74,233
Interest expense	(361,671)	(404,080)
Bad debt expense	<u>(9,712)</u>	<u>(7,925)</u>
 Total nonoperating revenues	 <u>4,578,404</u>	 <u>3,901,576</u>
 CHANGE IN NET ASSETS	 <u>1,660,471</u>	 <u>465,047</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>93,196,028</u>	 <u>92,730,981</u>
 NET ASSETS, END OF YEAR	 <u>\$ 94,856,499</u>	 <u>\$ 93,196,028</u>

The accompanying notes are an integral part of the financial statements.

**SANITARY DISTRICT OF DECATUR
STATEMENTS OF CASH FLOWS
Years Ended April 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 10,772,996	\$ 10,988,955
Payments to suppliers	(6,128,527)	(4,588,522)
Payments to employees	<u>(4,989,270)</u>	<u>(5,081,827)</u>
Net cash provided by (used in) operating activities	<u>(344,801)</u>	<u>1,318,606</u>
CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		
Property tax receipts	2,901,183	2,898,030
Replacement tax receipts	<u>355,258</u>	<u>393,809</u>
Net cash provided by noncapital financing activities	<u>3,256,441</u>	<u>3,291,839</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(14,023,296)	(10,200,046)
Principal payments on notes payable	(1,598,207)	(1,363,924)
Federal funding	-	447,860
State funding	1,535,801	445,973
Proceeds from notes payable	7,749,807	3,973,620
Interest paid on notes payable	<u>(368,040)</u>	<u>(409,750)</u>
Net cash used in capital and related financing activities	<u>(6,703,935)</u>	<u>(7,106,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale and maturity of investments	20,039,560	51,678,601
Purchase of investments	(15,305,504)	(44,347,853)
Interest income received	<u>144,808</u>	<u>77,306</u>
Net cash provided by investing activities	<u>4,878,864</u>	<u>7,408,054</u>
Net increase in cash and cash equivalents	1,086,569	4,912,232
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>15,229,273</u>	<u>10,317,041</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,315,842</u>	<u>\$ 15,229,273</u>

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net operating loss	\$ (2,917,933)	\$ (3,436,529)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	3,249,931	2,891,747
Effects of changes in operating assets and liabilities:		
Receivables	(457,518)	437,037
Prepaid expenses	(62,737)	(374)
Accounts payable	(162,162)	1,414,814
Accrued expenses	<u>5,618</u>	<u>11,911</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (344,801)</u>	<u>\$ 1,318,606</u>

The accompanying notes are an integral part of the financial statements.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanitary District of Decatur ("District") was incorporated in 1917 under the provisions of the Sanitary District Act for the purpose of providing wastewater services to a geographic area which includes Decatur and annexed areas surrounding the city. Revenues are generated from wastewater services provided for the constituents of the District supplemented by real estate taxes, investment earnings, and an allocated portion of State of Illinois replacement taxes.

REPORTING ENTITY

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100. The financial reporting entity consists of (a) the primary government, the Sanitary District of Decatur, which has a separately appointed governing body, is legally separate and fiscally independent of other state and local governments, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District is an independent special purpose government in that it has the authority to determine its budget, set rates or levy taxes, and issue bonded debt without approval by another government.

There are no component units of the Sanitary District of Decatur nor is the Sanitary District of Decatur dependent on any other entity.

FINANCIAL STATEMENT PRESENTATION AND BASIS OF ACCOUNTING

The District operates as a proprietary fund in which the intent of the District is to recover its operating costs, including depreciation, through the use of industrial and residential user charges and tax levies within. Within this fund, the District maintains sub-funds to account for specific resources and expenditures. The accounting records of the District are maintained on the cash method of reporting revenue and expenditures, and are adjusted at year end to the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements of pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District recognizes user charge revenues when the service is provided. Monthly cycle billing is utilized for industrial users; residential and small commercial customers are billed on quarterly cycles. Unbilled receivables have been estimated at April 30. User charge rates are intended to generate revenues equivalent to estimated operating and replacement costs.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL STATEMENT PRESENTATION AND BASIS OF ACCOUNTING (Continued)

State of Illinois replacement taxes are recognized as revenue when the underlying exchange transaction has occurred.

Permit income and other miscellaneous revenues are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. Charges for services are recognized when the service is performed as they are measurable and available.

Operating revenues, such as sewer user charges, services, and other charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as replacement taxes and investment income, result from nonexchange transactions or ancillary activities.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and changes in net assets during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, all short-term investments with a maturity at the date of purchase of three months or less are considered to be cash equivalents.

INVESTMENTS

Investments are stated at cost, which approximates fair value, and are composed of certificates of deposit, corporate debt, U.S. treasury notes and mutual funds. The types of investments allowed are regulated by Illinois State laws and include municipal bonds, U.S. Government or Illinois obligations, insured deposits or other investments of state or national banks, Federal National Mortgage Association obligations, Public Treasurer's Investment Pool and agreements collateralized by securities or mortgages in an amount at least equal to the market value of the funds deposited.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USER CHARGES RECEIVABLE

User charges receivable include both billed and unbilled services for residential and industrial customers in the Decatur area. The receivables are uncollateralized customer obligations which generally require payment within twenty days from the invoice date. Accounts receivable are stated at the invoice amount plus delinquency fees.

Account balances with invoices over twenty days old are considered delinquent and charged a 5% late fee. The District has the right to file a lien against the property. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the District could be adversely affected. All accounts or portions thereof deemed to be uncollectible, or to require an excessive collection cost, are written off to bad debt expense.

CAPITAL ASSETS

Capital assets are defined by the District as assets with an initial cost equal to or more than \$5,000. Land, buildings, improvements, infrastructure, and machinery and equipment acquired or constructed prior to May 1, 2002 are valued at estimated cost. All other additions since this date are valued at historical cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Land	Nondepreciable
Land improvements	8-50 years
Buildings and improvements	15-50 years
Infrastructure	50 years
Machinery and equipment	5-15 years
Vehicles	8 years

Work in progress includes costs incurred for various additions, improvements and modifications to existing capital assets during the year for which the project was incomplete at year end. Depreciation is not provided until the project is completed and placed in service.

COMPENSATED ABSENCES

District personnel earn vacation time in varying amounts depending on length of service with the District. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with accounting standards, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY TAXES

Property taxes attach as an enforceable lien on all assessable real property located within the boundaries of the District as of each January 1. Taxes are levied on or about May 1 and payable in two installments on or about June 1 and September 1. The County of Macon bills and collects the taxes for the District, and the District receives significant property tax distributions during the months of June, July, and September.

At year end, the District records a receivable for property taxes levied and records deferred revenue for the full amount to match the revenue recording with the period in which the monies will actually be received and used. The receivable and deferral are recorded at 99% of the levy as history has shown that 99% or more of the levy is collected.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District has adopted a formal investment policy approved by the Board of Trustees and Management. The District is authorized by its policy to make deposits or investments in a manner which will provide the maximum security at the highest investment return while meeting the daily cash flow demands of the District and conforming to all state and local statutes and ordinances governing the investment of public funds. The investment policy applies to all financial assets of the District. The District may invest in any type of security allowed by Illinois law, including savings accounts, money market accounts, commercial paper, State Treasurer's Investment Pool (The Illinois Funds), money market mutual funds, repurchase agreement, certificates of deposit and time Deposits constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the FDIC; bonds, notes and obligations guaranteed by the full faith and credit of the United States as to principal and interest.

The District's deposits, including certificates of deposit, were fully insured or collateralized as required by state statutes at April 30, 2012. At year end 2012 the carrying value of the District's deposits including certificates of deposit and cash were \$23,205,319 and the respective bank balances totaled \$23,313,006. At year end 2011 the bank balances of the District's deposits including money market and certificates of deposits were \$15,367,849 and \$18,203,067, respectively.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk -- the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy the District will also minimize interest rate risk. The District's formal investment policy states the portfolio shall remain sufficiently liquid to meet all operating costs which may be reasonably anticipated. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). The portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

Credit Risk -- the risk that an issuer or other counter party to an investment will not fulfill its obligation. The standard of prudence to be used by the District shall be the "prudent person" standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the District's overall portfolio.

The District's investments in U.S. treasury notes of \$3,242,403 were rated Aaa by Moody's Investors Service, of the District's mutual funds, \$112,476 was rated Aaa by Moody's Investors Service. The remaining mutual funds and corporate debt was not rated.

Custodial Credit Risk - Deposits and Certificates of Deposit -- the risk that a government will not be able to cover deposits if the depository financial institution fails or will not be able to recover collateral securities that are in the possession of an outside party. It is the policy of the District to require that time deposits in excess of FDIC or other federal insurable limits be secured by some form of collateral to protect public deposits in a single situation if it were to default due to poor management or economic factors. As of April 30, 2012, the District's bank deposits were fully collateralized.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of April 30, 2012, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of deposit	\$ 8,303,242	\$ 8,303,242	\$ -	\$ -	\$ -
Corporate debt	1,920,969	490,203	1,430,766	-	-
Mutual funds	1,411,593	1,411,593	-	-	-
US treasury notes	<u>3,244,572</u>	<u>-</u>	<u>1,600,392</u>	<u>1,644,180</u>	<u>-</u>
Total	<u>\$ 14,880,376</u>	<u>\$ 10,205,038</u>	<u>\$ 3,031,158</u>	<u>\$ 1,644,180</u>	<u>\$ -</u>

Below is a reconciliation of the above table to the Balance Sheet for fiscal year ended 2012:

Total from investment table	\$ 14,880,376
Less mutual funds in cash equivalents on Balance Sheet	<u>(1,411,593)</u>
Total investments on Balance Sheet	<u>\$ 13,468,783</u>

April 30, 2011 investment balance consisted of certificates of deposit only.

The District invests in various investment securities. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the Balance Sheet.

NOTE 3 - RECEIVABLES

Receivables are summarized as follows:

	<u>2012</u>	<u>2011</u>
Property tax receivable	\$ 3,035,979	\$ 2,891,940
Replacement tax receivable	52,531	53,676
Interest receivable	35,490	21,603
Billed user charges, net allowance of doubtful accounts of \$52,997 in 2012 and \$65,085 in 2011	184,952	166,202
Unbilled user charges	323,732	326,220
Industrial user charges	<u>1,636,986</u>	<u>1,204,297</u>
Total	<u>\$ 5,269,670</u>	<u>\$ 4,663,938</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 4 - MAJOR CUSTOMERS

Generally accepted accounting principles require disclosure of information about current vulnerabilities due to certain concentrations. Approximately 76% and 75% of the District's operating revenues for the years ended April 30, 2012 and 2011, respectively, were from two industrial customers. The accounts receivable from these two customers totaled \$1,547,564 and \$1,116,972 at April 30, 2012 and 2011, respectively.

NOTE 5 - CAPITAL ASSETS

	<u>Balance April 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance April 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 2,700,252	\$ 187,000	\$ -	\$ 2,887,252
Work in progress	<u>12,210,723</u>	<u>10,267,578</u>	<u>10,296,372</u>	<u>12,181,929</u>
Total capital assets not being depreciated	<u>14,910,975</u>	<u>\$ 10,454,578</u>	<u>\$ 10,296,372</u>	<u>15,069,181</u>
Capital assets being depreciated:				
Buildings and improvements	63,796,387	\$ 70,187	\$ -	63,866,574
Infrastructure	58,018,677	12,621,328	-	70,640,005
Machinery and equipment	54,979,555	1,025,720	182,110	55,823,165
Vehicles	3,052,687	-	269,000	2,783,687
Land improvements	<u>3,673,669</u>	<u>147,855</u>	<u>-</u>	<u>3,821,524</u>
Total capital assets being depreciated	<u>183,520,975</u>	<u>\$ 13,865,090</u>	<u>\$ 451,110</u>	<u>196,934,955</u>
Less accumulated depreciation:	<u>118,429,994</u>	<u>\$ 3,249,931</u>	<u>\$ 451,110</u>	<u>121,228,815</u>
Capital assets, net	<u>\$ 80,001,956</u>			<u>\$ 90,775,321</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	<u>Balance</u> <u>April 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>April 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 2,700,252	\$ -	\$ -	\$ 2,700,252
Work in progress	<u>4,523,133</u>	<u>9,154,299</u>	<u>1,466,709</u>	<u>12,210,723</u>
Total capital assets not being depreciated	<u>7,223,385</u>	<u>\$ 9,154,299</u>	<u>\$ 1,466,709</u>	<u>14,910,975</u>
Capital assets being depreciated:				
Buildings and improvements	63,796,387	\$ -	\$ -	63,796,387
Infrastructure	55,730,631	2,288,046	-	58,018,677
Machinery and equipment	54,919,920	59,635	-	54,979,555
Vehicles	3,032,579	20,108	-	3,052,687
Land improvements	<u>3,529,002</u>	<u>144,667</u>	<u>-</u>	<u>3,673,669</u>
Total capital assets being depreciated	<u>181,008,519</u>	<u>\$ 2,512,456</u>	<u>\$ -</u>	<u>183,520,975</u>
Less accumulated depreciation:	<u>115,538,247</u>	<u>\$ 2,891,747</u>	<u>\$ -</u>	<u>118,429,994</u>
Capital assets, net	<u>\$ 72,693,657</u>			<u>\$ 80,001,956</u>

Work in progress at April 30, 2012 consists of the following projects:

Argenta Project	\$ 6,929,645
APG Blower Pad #2 and #6	1,036,471
Berm Levee Project	1,105,074
Digester Facility	128,035
Digester Facility Mixers	35,267
Eastside Booster	28,455
Eastside Booster Pump Station	609,502
Process Monitor Video System	47,941
Trestle Repairs Project	<u>2,261,539</u>
Total	<u>\$ 12,181,929</u>

Work in progress at April 30, 2011 consists of the following projects:

Argenta Project	\$ 1,698,974
Berm Levee Project	123,520
CCG Pipeline Project	3,823
Eastside Booster	28,455
Oreana Project	6,116,028
South Sludge Lagoons Project	3,796,399
Stevens Creek Rehabilitation Project	81,211
Trestle Repairs Project	63,402
Clarifier #3	119,142
2010 Sludge Transfer Pump Replacement Project	<u>179,769</u>
Total	<u>\$ 12,210,723</u>

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE

The following is a summary of changes in notes payable for the years ended April 30, 2012 and 2011:

	Principal Outstanding April 30,2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30,2012	Current Portion
Note payable to the IEPA, for the Broadway/Cantrell project; 86.95% of note is payable by City of Decatur; interest at 3.580%; due in semi-annual installments in June and December of each year through December 2012.	\$ 19,321	\$ -	\$ 6,646	\$ 12,675	\$ -	\$ 6,886	\$ 5,789	\$ 5,789
Note payable to the IEPA, for the Staley Sewer Rehabilitation project; 100% payable by City of Decatur; interest at 3.015%; due in semi-annual installments in April and October of each year through November 2014.	-	-	-	-	-	-	-	-
Note payable to the IEPA, for the Norfolk & Western Railroad project; interest at 3.015%; due in semi-annual installments in April and October of each year through October 2014.	31,529	-	6,644	24,885	-	6,846	18,039	7,054

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30,2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30,2012	Current Portion
Note payable to the IEPA, for the Spring Creek Sewer project; 100% payable by City of Decatur; interest at 2.815%; due in semi-annual installments in March and September of each year through March 2015.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note payable to the IEPA, for the West Mound Road project; 100% payable by City of Decatur; interest at 2.815%; due in semi-annual installments in April and October of each year through April 2015.	-	-	-	-	-	-	-	-
Note payable to the IEPA, for the Northeast Supplemental Sewer project; interest at 2.815%; due in semi-annual installments in June and July of each year through July 2015.	288,622	-	49,231	239,391	-	50,626	188,765	52,062

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Current Portion
Note payable to the IEPA, for the Stevens Creek project; interest at 2.890%; due in semi-annual installments in April and October of each year through October 2017.	\$ 3,511,928	\$ -	\$ 425,757	\$ 3,086,171	\$ -	\$ 438,151	\$ 2,648,020	\$ 450,905
Note payable to the IEPA, for the McKinley Avenue Supplemental Sewer project; interest at 2.865%; due in semi-annual installments in February and August of each year through February 2019.	2,226,094	-	220,147	2,005,947	-	226,500	1,779,447	233,035
Note payable to the IEPA, for the Hickory Point West Extension project; 92.2265% payable by Village of Forsyth; interest at 2.500%; due in semi-annual installments in May and November of each year through April 2026.	60,502	-	3,118	57,384	-	3,196	54,188	3,277
Note payable to the IEPA, for the 1995 Sewer Rehabilitation project; interest at 2.890%; due in semi-annual installments in May and November of each year through May 2017.	959,656	-	125,579	834,077	-	129,235	704,842	132,997

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30,2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30,2012	Current Portion
Note payable to the IEPA, for the Hickory Point West Interceptor project; interest at 2.625%; 38.71% payable to Village of Forsyth; due in semi-annual installments in February and August of each year through February 2020.	\$ 601,018	\$ -	\$ 53,297	\$ 547,721	\$ -	\$ 54,705	\$ 493,016	\$ 56,151
Note payable to the IEPA, for the Ultra Violet project; interest at 2.535%; due in semi-annual installments in June and December of each year through June 2020.	1,208,311	-	101,805	1,106,506	-	104,402	1,002,104	107,066
Note payable to the IEPA, for the 2002 Rehabilitation project; interest at 2.500%; due in semi-annual installments in July and January of each year through January 2024.	415,605	-	25,352	390,253	-	25,990	364,263	26,644
Note payable to the IEPA, for the Harryland Road project; interest at 2.9050%; due in semi-annual installments in March and September of each year through September 2021.	358,466	-	26,670	331,796	-	27,450	304,346	28,253

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30, 2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30, 2012	Current Portion
Note payable to the IEPA, for the Damon to Monroe project; interest at 2.500%; due in semi-annual installments in January and July of each year through July 2024.	\$ 2,228,123	\$ -	\$ 129,830	\$ 2,098,293	\$ -	\$ 133,095	\$ 1,965,198	\$ 136,443
Note payable to the IEPA, for the Phase 2 – WWTP project; interest at 2.570%; due in semi-annual installments in January and July of each year through January 2024.	1,527,970	-	92,367	1,435,603	-	94,756	1,340,847	97,207
Note payable to the IEPA, for the Odor Control project; interest at 2.500%; due in semi-annual installments in April and October of each year through January 2027.	595,317	-	28,495	566,822	-	29,212	537,610	29,947
Note payable to the IEPA, for the 2004 Rehabilitation project; interest at 2.500%; due in semi-annual installments in June and December of each year through December 2025.	1,317,776	-	68,985	1,248,791	-	70,720	1,178,071	72,499

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30,2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30,2012	Current Portion
Note payable to the IEPA, for the Wyckles Forcemain project I; interest at 0.000%; due in semi-annual installments in July and January of each year through 2031.	\$ 656,881	\$ 152,048	\$ -	\$ 808,929	\$ 9,708	\$ 41,484	\$ 777,153	\$ 41,484
Note payable to the IEPA, for the Oreana Collection System project; interest at 0.000%; due in semi-annual installments in March and September of each year through 2031.	792,855	2,605,596	-	3,398,451	1,057,618	114,258	4,341,811	227,859
Note payable to the IEPA, for the Wyckles Phase II project; interest at 0.000%; due in semi-annual installments in November and May of each year through 2030.	-	693,385	-	693,385	100,182	40,695	752,872	40,695
Note payable to the IEPA, for the Argenta Collection System project; interest at 0.000%; due in semi-annual installments in July and January of each year through 2032.	-	522,590	-	522,590	3,541,565	-	4,064,155	-
Note payable to the IEPA, for the Stevens Creek Interceptor Rehab project; interest at 1.2500%; due in semi-annual installments in March and September of each year through 2031.	-	-	-	-	1,945,651	-	1,945,651	-

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

	Principal Outstanding April 30,2010	Issuances	Retirements	Principal Outstanding April 30, 2011	Issuances	Retirements	Principal Outstanding April 30,2012	Current Portion
Note payable to the IEPA, for the 2011 Trestle Rehab project; interest at 1.2500%; due in semi-annual installments in January and July of each year through 2032.	-	-	-	-	1,095,083	-	1,095,083	-
Totals	\$ 16,799,974	\$ 3,973,619	\$ 1,363,924	19,409,670	\$ 7,749,807	\$ 1,598,207	25,561,270	\$ 1,749,367
Payment received from City of Decatur not remitted to IEPA as of April 30, 2011 and 2012, respectively, for Staley Sewer Rehabilitation				20,968			21,890	
Total				\$ 19,430,638			\$ 25,583,160	

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 6 - NOTES PAYABLE (CONTINUED)

Annual debt service requirements to maturity for long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended April 30			
2013	\$ 1,749,367	\$ 328,866	\$ 2,078,233
2014	1,783,842	289,013	2,072,855
2015	1,844,518	248,199	2,092,717
2016	1,831,101	205,703	2,036,804
2017	1,844,290	163,923	2,008,213
2018-2022	5,331,916	387,967	5,719,883
2023-2027	2,889,308	61,164	2,950,472
2028-2032	<u>1,203,928</u>	<u>-</u>	<u>1,203,928</u>
Total	18,478,271	<u>\$1,684,835</u>	<u>\$ 20,163,105</u>
Loan balance, Argenta Collection System – open loan	4,064,155		
Loan balance, Stevens Creek Interceptor Rehab – open loan	1,945,651		
Loan balance, 2011 Trestle Rehab – open loan	<u>1,095,083</u>		
Total	<u>\$ 25,583,160</u>		

Contracts were entered into during fiscal year 2012 and 2011 for three new projects; Argenta Collection System in 2011 and Stevens Creek Interceptor and Trestle Rehabilitation in 2012, for which work has begun on all. All three projects are supported by the Illinois Environmental Protection Agency (IEPA) Revolving Loan Fund Program, and include a state funding component, a portion of which does not have to be repaid. These amounts of principal forgiveness are recorded as federal and state revenue. The Argenta Collection System had drawdowns totaling \$4,064,155 which are required to be repaid. For the 2011 Trestle Rehabilitation, project drawdowns of \$1,095,083 are required to be repaid. Finally, the Stevens Creek Interceptor Rehab project had drawdowns of \$1,945,651 required to be repaid. The maximum loan amount for Stevens Creek Interceptor is \$2,417,575; for 2011 Trestle Rehabilitation is \$3,160,005; and for Argenta Collection System is \$6,840,032.

The District is to raise \$1,826,161 and \$2,096,549 at April 30, 2012 and 2011, respectively, from user charges/property taxes to repay loans from the Illinois EPA Revolving Loan Fund. The City of Decatur and Village of Forsyth portion of the above is \$612,144 and \$782,379 with a current portion of \$204,398 and \$207,236 at April 30, 2012 and 2011, respectively, which is shown of the statement of net assets.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 7 - PENSION PLAN

Plan Description

The District's defined benefit pension plan for District employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The District's plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

Funding Policy

As set by statute, District plan members are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The District's contribution rate for calendar year 2011 was 11.50 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2011 was 13.80 percent. The District also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost

For calendar year ending December 31, 2011, the District's actual contributions for pension cost for the Plan were \$413,451. Its required contribution for calendar year 2011 was \$496,142. For calendar year ending December 31, 2010 the District's actual contributions for pension cost to the Plan were \$399,485. Its required contribution for calendar year 2010 was \$518,543.

Three – Year Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/11	\$ 496,142	83%	\$ 238,399
12/31/10	1,025,793	38%	164,383
12/31/09	514,889	100%	-
12/31/08	311,088	100%	-

The required contribution for 2011 was determined as part of the December 31, 2009 and 2008, respectively, actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2009 and 2008, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of the District's plan assets was determined using techniques that spread the effects of short-term volatility in the market value of your investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The plan's unfunded actuarial accrued liability at December 31, 2009 is being amortized as a level percentage of projected payroll on an open 30 year basis.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 7 - PENSION PLAN (CONTINUED)

The District chose to make the minimum allowed contribution versus the required contribution because the required contribution increased significantly due to investment returns that were below the actuarial assumption of 7.5%. It is assumed that investment returns will come back to the historical average, the net pension obligation will be eliminated and the District will again be making the required contribution within five years. The pension obligation was not recorded on the Balance Sheet since not significant to the overall financial statements.

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 65.42 percent funded. The actuarial accrued liability for benefits was \$12,658,681 and the actuarial value of assets was \$8,281,786, resulting in an underfunded actuarial accrued liability (UAAL) of \$4,376,895. The covered payroll for calendar year 2011 (annual payroll of active employees covered by the plan) was \$3,595,230 and the ratio of the UAAL to the covered payroll was 122 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to providing the pension benefits described in Note 7, the District provides other postemployment health care benefits (OPEB) for retired employees through a single employer defined benefit plan (Retiree Healthcare Program). This plan has three components: Retirement Health Savings Program, Health Premium Supplement Program and Deductible Reimbursement Program. Even though Retirement Health Savings Program has defined contribution characteristics, plans with both defined contribution and defined benefit characteristics follow defined benefit plan requirements. Furthermore, the Retirement Health Savings Accounts are not considered OPEB plan assets for purposes of this report. These account balances do offset the District's liabilities under the Health Premium Supplement Program. The calculations of the liabilities associated with the Health Premium Supplement Program recognize this offset. The District has the authority to establish and amend the benefit provisions of this plan. The plan does not issue a separate report.

**SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011**

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Monthly Retiree Contributions

Retirees pay for the cost of the postemployment medical plan. The Retirement Health Savings Accounts, however, do pay for part of the cost of the plan and these accounts are partially funded with employer contributions.

Employer Contributions

According to the terms of the Retirement Health Savings Program, for each month of service (but not beginning prior to May 1, 1998), the District contributes \$75 into each employee's Retirement Health Savings Account. Additionally, 1-¼% of an employee's salary (up to a maximum salary base of \$100,000) is also deposited into an employee's Retirement Health Savings Account each year.

Employees may elect to enhance their Retirement Health Savings accounts by contributing a part of their wages to a designated personal Roth IRA. These employee contributions are made in the form of payroll deductions, up to \$520 per year. The District provides a 2 for 1 match of the employee's contributions up to maximum of \$1,040 per year.

The District also pays for the cost of the Health Premium Supplement Program and the Deductible Reimbursement Program.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The net OPEB obligation was calculated as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 164,293	\$ 130,215
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	<u>6,138</u>	<u>3,323</u>
Annual OPEB cost	170,431	133,538
Estimated contributions made by the District	<u>199,657</u>	<u>190,359</u>
Increase in net OPEB obligation	-	-
Net OPEB obligation, beginning of year	<u>-</u>	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Schedule of Employer Contributions

Actuarial valuation date	May 1, 2012	May 1, 2011
Annual required contribution (ARC)	\$ 164,293	\$ 130,215
Estimated contributions made by the District	\$ 199,657	\$ 190,359
Percentage of ARC contributed	121.5%	146.2%

Funded Status and Funding Progress

Actuarial valuation date	May 1, 2012	May 1, 2011
Actuarial accrued liability (AAL)	\$ 1,371,842	\$1,184,511
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,371,842	\$1,184,511
Funded ratio (actuarial value of plan assets/AAL)	0%	0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the AALs for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2012 and 2011 actuarial valuations, the projected unit credit method was used. The actuarial assumptions included an investment return rate of 3%, salary increases comprised of a wage inflation component of 3%, and a healthcare cost trend rate of 5%. The calculations assume a level dollar open amortization period and amortization factor of 20.188.

The actuarial value of assets was not determined as the District has not advance funded its obligation.

SANITARY DISTRICT OF DECATUR
NOTES TO FINANCIAL STATEMENTS
April 30, 2012 and 2011

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damages to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance for these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

At April 30, 2012, the District had various contracts for construction projects and engineering projects with outstanding commitments totaling approximately \$4,160,240, which were at varying stages of completion. The District is obligated to pay the costs under these contracts as the work is completed.

NOTE 11 - SUBSEQUENT EVENTS

Events or transactions occurring after October 1, 2012 that provided additional evidence about conditions that existed at April 30, 2012, have been recognized in the financial statements for the year ended October 1, 2012. Events or transactions that provided evidence about conditions that did not exist at April 30, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended April 30, 2012.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**SANITARY DISTRICT OF DECATUR
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
Year Ended April 30, 2012**

Illinois Municipal Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
12/31/11	\$8,281,786	\$12,658,681	\$4,376,895	65.42%	\$3,595,230	121.74%
12/31/10	9,157,903	13,108,764	3,950,861	69.86%	3,726,090	106.03%
12/31/09	8,210,972	11,773,472	3,562,500	69.74%	3,442,269	103.49%
12/31/08	5,944,896	10,790,714	4,845,818	55.09%	3,429,855	141.28%

On a market value basis, the actuarial value of assets as of December 31, 2011 is \$7,702,472. On a market basis, the funded ratio would be 60.85%.

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
05/01/11	\$ -	\$1,371,842	\$ 1,371,842	0.00%	N/A	N/A
05/01/10	-	1,184,511	1,184,511	0.00%	N/A	N/A
05/01/09	-	1,186,487	1,186,487	0.00%	N/A	N/A
05/01/08	-	1,139,695	1,139,695	0.00%	N/A	N/A